MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BFN 2054 – PORTFOLIO MANAGEMENT

(All sections/ Groups)

12 MARCH 2019
9:00 A.M. – 11:00 A.M.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of **2** pages with **5** questions.
2. Attempt all the questions. The distribution of the marks for each question is given.
3. Please answer all questions in the Answer Booklet provided.

Please Answer All the Questions

Question 1: 20 marks

The Portfolio A, B, and C are the return data, while M and F stand for the market portfolio and risk-free rate, respectively:

Portfolio	Rp	σp	βp
A	10%	30%	0.75
B	15	25	1.00
C	20	40	1.50
M	15	15	1.00
F	5	0	0.00

*tracking error is 5.9 percent

Calculate Sharpe ratios, Treynor ratios, Jensen's alphas and Information ratios for portfolios A, B, and C. (20 marks)

Question 2: 20 marks

a) What is the relationship between Economic Value Added (EVA) and Market Value Added (MVA)? (10 marks)

b) William company had a return on stock holders' equity of 18 percent during 2016. Its total asset turnover was 1.0 times, and its equity multiplier was 2.0 times. Calculate the company's net profit margin. (10 marks)

Question 3: 20 marks

Over the past 10 years, the dividends of Party Time Company, have grown at an annual rate of 15 percent. The current (Do) dividend is RM3 per share. This dividend is expected to grow to RM3.40 next year, then grow at an annual rate of 10 percent for the following two years and 6 percent per year thereafter. You require a 15 percent rate of return on this stock.

a) What would be you be willing to pay for a share of Party Time stock today? (10 marks)

b) What price would you anticipate the stock selling for at the beginning of year 3? (5 marks)

c) If you anticipated selling the stock at the end of two years, how much would you pay for it today? (5 marks)

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Question 4: 20 marks

a) The stock Jones is expected to return 13 percent annually with a standard deviation of 8 percent. The stock of Bush is expected to return 17 percent annually with a standard deviation of 14 percent. The correaltion between the returns from the two securuties has been estimated to be +0.3. The beta of the Jones is 0.9, and the beta of the Bush stock is 1.2, the risk free rate of return is expected to be 8 percent, and the expected return on the market portfolio is 15 percent. The current dividend for Jones is RM4, and the current dividend for Bush is RM6.

i) What is the expected return from a portfolio containing the two securities if 40 percent of your wealth is invested in Jones and 60 percent is invested in Bush? (5 marks)

ii) What is the expected standard deviationof the portfolio of the two stocks? (5 marks)

iii) Which stock is the better buy in the current market? Why? (5 marks)

b) Why is pure passive management strategies not possible in a bond portfolio? (5 marks)

Question 5: 20 marks

a) What is the relationship between tactical asset allocation (TAA) tie in with the efficient market hypothesis? (10 marks)

b) How do the investment characteristics of developed and undeveloped land differ? (10 marks)

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